

Tax Working Group Public Submissions Information Release

Release Document

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- [1] 9(2)(a) - to protect the privacy of natural persons, including deceased people;
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In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

Refund of GST on new Houses

An 'only once in a lifetime' GST refund on a newly built house should be considered. This is a supply side initiative which makes good sense because there is no GST on second hand houses.

This is an anomaly because it increases the cost not only of new houses, but at the same time increases the value of **all houses**; because their replacement value has gone up. This reality acts as a disincentive for the building of new houses especially for those built on a "spec" (speculation) basis i.e. a builder erects one or more new houses in the hope that a buyer will come along once it/they are finished.

Before the introduction of GST whole suburbs were built on that basis but now they are rare. I can say this with confidence because I worked with my brother who built hundreds of homes in Nelson as did my brother-in-law. When GST was introduced, at just 10% at that time, he worked his way through a difficult time because of the additional cost to buyers. That happened because the price relativity between new and second hand houses had changed and buyers would go for the cheaper option. This all came right when the cost of existing houses "caught up" with the price of new houses, but "spec" houses became rare.

This would reverse if the GST was refunded to the buyers of new houses especially because the GST is now 15%. That is \$78,261 on a new house selling for \$600,000. Without GST it would be \$521,739 a very different deal, especially for first home buyers.

In addition it would lower the cost of existing houses since people would now buy new rather than second hand (replacement value reduced).

It is necessary to do this by way of a GST refund to the buyer when the builder's return is filed, after the house is built and payment of the GST has been made to the IRD. It would not be refunded by the IRD until the GST paid by the buyer to the builder, has been received. This could mean that the buyer might need a short term loan for the amount of the GST paid, from their family or their bank, as a bridge until the refund is received.

This would also require the builder to make a GST return for each individual house so that the amount of GST collected for that house is known; for that is the amount which would be refunded to the buyer.

However this extra work should not bother the builder too much because the demand for the completed house should increase given its reduced price.

The overall reduction in the price of housing will also have a positive impact on monetary policy by enabling the Reserve Bank to abolish such things as the Loan to Value Ratio (LVR) restrictions for first home buyers and keep interest rates lower for longer, to the benefit of all.

Household mortgages would be reduced.

I began this submission by limiting GST refunds to just one per person for life since that would limit its effects on the Government's budget. However it could apply to all new homes (except those built by non-residents), if tax changes made in other areas brought in extra revenue.

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